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IN THE MATTER OF THE APPLICATION OF GROOM CREEK WATER USERS ASSOCIATION FOR AN INCREASE IN RATES.	**DOCKET NO. W-01865A-07-0385**
IN THE MATTER OF THE APPLICATION OF GROOM CREEK WATER USERS ASSOCIATION FOR APPROVAL OF FINANCING AND RATE CHANGES.	**DOCKET NO. W-01865A-07-0384** **NOTICE OF FILING OUTSTANDING PRE-TRIAL ISSUES**

On March 5, 2008, a procedural conference was held in the above-captioned matters. Prior to the hearing, Arizona Corporation Commission ("ACC") Utilities Division Staff ("Staff") met with representatives of the applicant, Groom Creek Water Users Association ("Applicant" "Groom Creek"). The parties attempted to resolve several issues. At the close of discussions, the parties believed they could eliminate some of these issues.

On March 18, 2008, Administrative Law Judge Yvette B. Kinsey issued a procedural order in which she directed the parties to file on or before April 15, 2008 a joint pleading which outlined all issues on which the parties had reached agreement. The Order further directed Staff to file a pleading on or before April 30, 2008 which outlined any remaining unresolved issues.

Staff hereby submits the attached memorandum, which Staff believes outlines the issues which have yet to be resolved at hearing.

Arizona Corporation Commission
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RESPECTFULLY SUBMITTED this 13th day of May, 2008.

By______________________________
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Original and 15 copies of the foregoing filed this 13th day of May, 2008, with:

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Copy of the foregoing mailed this 13th day of May, 2008, to:

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EXHIBIT 1

RESPONSE TO THE ASSOCIATIONS OBJECTIONS

The Association's letter, dated February 11, 2008, specifying objections to the Staff Report enumerates five issues as follows: 1) financing type; 2) rates/revenues; 3) tax exempt status; 4) service line and meter installation charges; and 5) inconsistencies in service charges between the narrative and schedules. Staff's understanding is that only items 1 and 2 remain unresolved. Item no. 3 regarding the Association's tax exempt status was not a disputed item. However, the attachment to the Association's objection letter confirms its tax exempt status. Item no. 4 regarding meter line and service installation charges was resolved by joint agreement between Staff and the Association as noted in Staff's April 15, 2008, pleading. The recommended charges are shown in Revised Schedule BCA-4. Item no. 5 is resolved by this Updated Staff Report that corrects the inconsistencies in service charges between the narrative and the schedules. The correct service charges are presented in Revised Schedule BCA-4.

Item nos. 1 and 2 are interrelated. That is, the Association's debt service capacity is tied to its revenues. The Association's financing and revenue proposals should provide a path to achieving its objectives. The Association intends to complete capital improvement projects to coincide with Yavapai County's road paving schedule that is to be completed by 2012 without having to file another rate application.

The Association's engineers have estimated the cost of the projects at $2,974,952. The Association has requested authorization for a 10-year $500,000 line of credit to finance the projects. The Association has also requested annual revenues of $151,316 or $32,437 more than the Staff recommendation of $118,879. The additional $32,437 could be used to pay down the balance on the $500,000 line of credit allowing an equal amount of potential borrowing to fund capital improvements. A $2,474,952 unfunded capital improvement project balance would exist subsequent to the initial $500,000 borrowing. It would take in excess of 76 years for the Association's incremental $32,437 revenue request to fund all of the planned capital projects. Due to the continuing capital improvement funding requirements, the Association's claim that it can save interest expense by issuing a 10-year line of credit versus a 20-year amortizing loan is misplaced. A 20-year loan provides better maturity matching with the expected life of capital improvements. Thus, the Association's proposed revenues and financing are not consistent with its capital improvement plan.

Unless rates are authorized in this rate proceeding to finance the entire $2,974,952 capital improvement plan, the Association will need to file at least one additional rate case to achieve its capital improvement objectives. Staff's recommended revenue is sufficient to provide debt service on its recommended $491,134 20-year amortizing loan. The annual debt service on the remaining capital improvement balance of $2,483,818 at 8 percent per annum is $249,308. An additional $58,895 of revenue would be needed to provide a 1.25 debt service coverage ratio ("DSC") on the incremental $2,483,818 loan. Thus, annual revenue of $430,414 ($118,879 Staff recommended + $249,308 + $62,327) is needed to fund all of the capital improvements with a 1.25 DSC. Staff is not recommending rates to support the entire capital improvement plan in this proceeding due to an interest in moderating the impact to ratepayers. The Association should develop a plan to implement the remainder of its capital improvement plan while continuing to moderate the impact to ratepayers.

The Association has a concern over Staff's recommended $22.50 minimum monthly charge versus its proposed amount of $42.00. The Association needs adequate revenues for all its financial obligations. Having adequate revenue, not whether those revenues are generated by the monthly charge or commodity rates is of primary significance. Staff's recommended revenue is sufficient to allow the Association to complete one phase of its proposed capital improvement project while providing a gradual shift in rates. Therefore, the Association's concern over Staff's recommended $22.50 minimum monthly charge versus its proposed amount of $42.00 is not particularly relevant.[1] Placing a larger portion of the revenue in the minimum monthly charge does provide greater month-to-month revenue stability throughout the year; however, it also causes a subsidy from lower users to larger users. The latter is undesirable in that it sends an anti-conservation message to customers.

The Association's objection letter requested that copies of customer complaints and opinions be forwarded to it. Staff has provided a copy of all complaints to the Association, and opinions regarding the rate applications are posted on the Commission's web site.

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[1] Since the Association includes 1,000 gallons in its minimum monthly charge and Staff does not, a more representative comparison would reflect the sum of Staff's minimum monthly charge and the commodity charge for an incremental 1,000 gallons of usage. The incremental commodity charge could be $4.43, $6.65 or $16.00 depending upon the tier rate applicable to the customer's consumption.